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SIPDIS

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SUBJECT: SAAB: HOPE NOW WITH THE CHINESE AS KOENIGSEGG DEAL
COLLAPSES

Ref: A) STOCKHOLM 374, B) STOCKHOLM 572

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¶1. (U) Summary. Luxury car maker Koenigsegg announced on November 24 that they will not pursue their purchase of Saab, blaming the "time-consuming bureaucracy" of the European Commission and other major players. All hope is now with the Chinese because the Swedish government reiterated that it will not purchase Saab; there is wide-spread belief that GM will not reverse its decision to sell Saab, as it did with Opel. The only other remaining option is liquidation. This threat to the Saab deal is the third recent political set-back for Deputy PM and Minister for Enterprise and Energy Maud Olofsson. End Summary.

Background

¶2. (U) Ever since it became known that General Motors (GM) put Saab up for sale, the Swedish government led by Deputy Prime Minister and Minister for Enterprise and Energy Maud Olofsson has made it clear that it will not risk tax-payers money by purchasing Saab. Ref A reported on Koenigsegg Group's intentions to take over the Saab-brand.

¶3. (U) The procedure of deal was broken down into four different steps:

- Koenigsegg Group had to inject additional substantial capital into Saab.
- Koenigsegg Group needed to negotiate to receive a loan from the European Investment Bank (EIB).
- Koenigsegg Group needed to agree with the Swedish national debt office (Riksgalden) on the terms of any possible state credit guarantees needed to secure the EIB loan. Koenigsegg Group would have to put up acceptable securities in property, stock and other assets before the government would be able to go in with bank guarantees for the EIB loan.
- The European Commission had to approve possible state guarantees. The guarantees may not constitute disguised subsidies.

Koenigsegg Group's explanation

¶4. (U) Koenigsegg publicly says it is the bureaucracy of the fourth step, approval of the state guarantees by the European Commission, which has caused Koenigsegg to withdraw from the deal. "It is the bureaucratic process that is lengthy and impossible to predict. We set December 1 as a deadline, but we have received information from the European Commission that the date will be mid-January; then they said mid-February," Christian von Koenigsegg explained following the decision to withdraw. "We cannot know if it is possible to realize the business plan in the middle of January or February, when Saab's sales are continuing to plummet. It is the time issue that is decisive," he continued. Von Koenigsegg claims that it is not the lack of funding that has lead to this decision. Instead he maintains that practically all parties have had a lengthy and unpredictable bureaucracy, including the negotiators at GM.

Reactions

15. (U) The Swedish government was surprised by the Koenigsegg decision not to move forward in the Saab purchase process. State Secretary Joran Hagglund made sure to explain that this "was due to matters outside the Government's control" and that "GM is the owner of Saab." Contrary to Koenigsegg's accusation that the decision to withdraw was a result of troublesome and lengthy bureaucracy the Swedish government claimed that "all parties involved, including the European Commission [would have been able to] deliver on time."

16. (U) Shock and surprise best describes the reactions at Saab in Trollhattan. Metal Worker's Union's local club chairman Paul Akerman at Saab Automobile told the Swedish Business Daily that, "Even if it has been very problematic and the deal has been dragged out we saw great possibilities with Koenigsegg as the new owner. Therefore I am both surprised and very disappointed." A total of 6,000 jobs are expected to be lost if Saab is shut down, 3,000 at Saab and 3,000 at their suppliers.

17. (U) Sweden's political opposition blames the government for the broken Saab deal. Left Party leader Lars Ohly tells Swedish media he believes that the Swedish government did not spend enough resources on trying to solve the situation at an earlier stage, i.e. finding additional prospective buyers, etc. Ohly also blames the government's reluctance to invest in Saab and outspoken unwillingness to buy Saab for causing a decrease in the market value of Saab and thereby repelling investors.

Speculation over Chinese buyers

18. (U) The unexpected news has created massive speculation in Swedish Media. The Stockholm Business Daily reports being in contact with representatives of the Swedish government who tell them that the government has asked Geely if they are interested in also buying Saab. The idea of a merger between Volvo and Saab is not a

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new idea, and has been discussed repeatedly recently, according to press reports. According to those same reports, there has also been close contact between automobile owners Ford and GM.

19. (SBU) Analysts believe that a Geely purchase of Saab would profit both the Swedish west coast (where both Volvo and Saab cars are manufactured) and Geely. An official at the Ministry of Enterprise and Energy told Post on November 25 that he sees no business advantage for Geely to buy both Volvo and Saab, and that such a purchase is just a reporter's overly-excited dream.

110. (SBU) Comment: Many observers are looking to a Chinese buyer as the only way to save Saab right now. Beijing Automotive Industry Corporation (BAIC), one of the investors behind Koenigsegg, is the most probable buyer. In its first public comments, BAIC said it is "reviewing its options." It is too early to say whether that means BAIC might bid on the entire company, or withdraw altogether. BAIC did state that its long-term strategy is to become a global actor. All along, BAIC has known that what Koenigsegg lacked was capital and time -- a rather poor negotiating position to be in. It may be that BAIC prefers a situation where it can negotiate directly with GM, which might be a cheaper way of acquiring Saab that gives greater control over the company than the minority stake through Koenigsegg would have done. End Comment.

Internal Swedish Government Perspective

111. (SBU) A Ministry of Enterprise official working Saab and Volvo issues told Post that "an Ambassador from a major country is coming in to see us in an hour." He continued by saying he believes there are Chinese actors expressing interest in taking part in the continued process. He concluded by saying this came suddenly and that there is intense work underway within the Swedish government -- in advance of the GM Board meeting early next week. In closing, he commented that journalists were completely taken by surprise, and that "they don't really know anything, but they speculate wildly."

112. (U) Comment: As previously reported (Ref B) the possibility of

a Chinese buyer was previously not an entirely welcomed outcome in Sweden. Now, as Saab's possibilities of survival look bleak at best, analysts have concluded that beggars cannot be choosers. End comment.

¶13. (U) Reporters also speculate over the possibility that GM will keep Saab, as they did with Opel. The new models are already done and ready to be produced and the new business plan is in place. It would take a relative small effort and few resources to maintain Saab as a European niche company. However, this seems to be an unlikely outcome, as GM committed to selling Saab when the company was saved by the USG and went through the reconstruction process.

Liquidation?

¶14. (U) If GM does not find another buyer quickly, or decide to keep Saab, it is likely that Saab will be forced to liquidate. The Industry Organization of Suppliers (FKG) has advised its members to demand cash payments considering the uncertainty that now surrounds Saab's future. This further aggravates the situation, and undermines Saab's financial position. The Swedish state also has a SEK 110 million (USD 16 Million) demand on Saab that Saab refuses to pay. If Saab takes the issue to court, the Swedish state cannot grant or force a liquidation before the legal matter is resolved.

Third Blow for the Deputy Prime Minister

¶15. (SBU) Comment: Minister of Enterprise and Energy Maud Olofsson is going through a challenging period right now. In the final month of preparations for the major climate meeting in Copenhagen, Swedish energy giant Vattenfall has come under fire for its operations abroad, mainly in Germany, where the company operates coal-fired plants as well as nuclear facilities. As Vattenfall is completely state-owned, Olofsson represents the owner. Due to political considerations and tensions within the Alliance government, Olofsson chose to criticize Vattenfall and its CEO publically, instead of exerting her Ministry's role as the owner through regular channels. As a result of the political turbulence, the process to replace the CEO was accelerated. Vattenfall's obligations in Germany continue to plague Olofsson, and the political opposition has even called for her resignation.

¶16. (SBU) Comment continued: The second problem surfaced recently, with a spontaneous comment by the Minister that she would "do all she could" to accelerate the permit to set up a wind-park in Pitea in northern Sweden. Her comment was widely viewed as improper under the much-valued principle of the Swedish Constitution that a Cabinet

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Minister does not have any role in a permit process. In addition, news came out early this week that Olofsson's son works for the wind-power company applying for the permit. Koenigsegg's sudden withdrawal from the Saab purchase provides another target for criticism from the opposition. End comment.

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